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Proceedings
of the
112th Annual Meeting
of Shareholders
Thursday, January 8, 1981

THE
ROYAL BANK
OF CANADA

GETTING OUR ACT TOGETHER

An address delivered by
Rowland C. Frazee
Chairman and
Chief Executive Officer
The Royal Bank of Canada

What a year it has been for Canadians—full of ''alarums and excursions''! Against an unsettling background of unprecedented volatility in financial markets, we have had a series of emotion-laden political events. We had an unexpected Federal election. We had the Quebec referendum. We had the summer-long television coverage of the constitutional discussions. Then we had the acrimonious energy dispute, culminating in a hotly-debated budget from Ottawa. And finally, the constitution was taken up again, with strong opposition from both East and West to the federal government's patriation plan.

These questions are critically important.

But at the same time, we have unfortunately become so preoccupied with domestic disputes, that we are losing sight of Canada's place in the global community.

If you stand back and take a long, thoughtful look at Canada, a number of things stand out:

First, if we compare our country to others around the world, we cannot fail to realize how fortunate we Canadians really are. What a heritage we have! What potential our nation has!

Second, this potential will not be realized automatically, or even easily. If we are to have the prosperity of which Canada is capable, we'll have to work for it. We can't take it for granted, and it won't happen if we knock off work at noon on Friday when our international competition is working Saturdays. In short, we'll have to get our act together.

Third, like it or not, we are irrevocably part of the world community, with our fortunes tightly linked with those of other countries—industrialized and under developed, rich and poor. We cannot hope to forge our Canadian destiny without taking fully into account the growing interdependence of nations.

Fourth, we are unlikely to make the best of our heritage unless we can find it in ourselves to rise above the divisive resentments so characteristic of today's Canadian debates. If we are to succeed as a nation, we must be one nation, facing the world and the future with confident unity.

Canada's Heritage

To establish a realistic perspective, let us look for a few moments at the rich patrimony we Canadians have inherited. I'll not elaborate on our legacy of freedom and justice. What we take for granted, many people around the world would be willing to die to achieve for their children.

The economic benefits conferred by Canada are equally rare. And Canada's potential for continuing to do so is almost without parallel among the countries of the developed world.

Just think of what we have. We seem to have lost sight of the fact that, in large measure, the problems we are squabbling about are actually problems of plenty—we are arguing about the distribution of our substantial wealth.

For example, we tend to forget that Canada is actually more than self-sufficient in energy. In fact, no industrial nation is better off in energy terms. While we are still a net importer of oil (and we could become self-sufficient in this, too, if we play our cards right) we have total energy resources far beyond the wildest dreams of any oil-importing country. To be sure, the oil-price spiral of the 70's contributed to inflation, and a slightly lower standard of living. We pay a little more at the gas pump. But in Third World oil-importing countries, the price increases are leading to serious human tragedies, consequences of an entirely different order of magnitude from those in Canada.

Look at our agricultural base—at a time when many of the world's people are suffering from malnutrition and world food-supply prospects are problematical.

Consider our immense mineral reserves, large forest-products industry, our fisheries. Think of our bountiful heritage in fresh water. We're incredibly rich in water, a precious self-renewing resource whose value we Canadians, typically, take completely for granted.

But our most important asset is still our people. We are outgrowing our total dependence on raw resources. We have a healthy and well-educated workforce, and we're close to having the technology and skills needed to realize our potential.

We have developed know-how—and the international reputation to match—in a variety of fields. We have earned our spurs in oil and gas exploration and development. We are widely respected in telecommunications, agricultural science, project engineering, and long-distance high-voltage power transmission. In the professions, Canada's reputation is first class. Our global competence in banking is well demonstrated.

With our natural wealth and human resources, we are capable of achieving a consistently strong rate of growth in the coming decade and beyond—possibly as strong as any industrial country.

Having said that, I must also repeat: we'll not achieve this growth without working for it. And frankly, if we continue with our present preoccupations, we are in danger of losing by default.

What is needed to realize Canada's rich future?

Attitudes for Canadians

First, there are a number of ways in which all of us have to change our attitudes and "get our heads straight."

For example, we must overcome our habit of looking inward, almost as if the great world were no longer out there beyond our borders. We Canadians have to become internationalists, recognizing that the coming era is one in which the interdependence of nations will crystallize as the most prominent fact of economic and political life.

No industrial country of the world depends more on trade than Canada—and not only in terms of exports. Our need for imports ranges from orange juice to metallurgical coal—and also includes our undeniable need for foreign capital and technology.

Whether we like it or not, we are a part of the world community. At one and the same time, the peoples of other countries are our customers, our suppliers, our competitors—and our brothers.

There are at least two compelling ways to look at the world around us. First, we need to develop a lively awareness of how the international marketplace is changing. We have to recognize that the newly-industrialized countries of Latin America and the Pacific are rapidly becoming among our most vigorous competitors. We need to recognize the implications of international capital and resource scarcity; the complexities of the petrodollar reclycling problem; and the rising tide of protectionism around the world.

Second, we need to consider—very seriously—our human responsibilities to the 70 per cent of the world's population who are still extremely poor. Among these, well over a billion—in 38 low income countries—have a GNP per person of less than \$400 a year, less than four per cent of Canada's. Can we really accept as satisfactory the fact that Canada's official aid total now stands at .46% of GNP? This at a time when the U.N. estimates that total official development aid should amount to at least 1% of the GNPs of the advanced countries, and some European countries are close to that target.

Apart from international considerations, we Canadians need to develop a far more realistic attitude to economics, right here at home. We must face the fact that the only way we can increase—or even maintain—our standard of living is through productivity. We must stop thinking we can legislate prosperity by the stroke of a government pen. We must recognize that our economic situation depends more on the thousands of daily decisions made in countless stores, factories and offices than on any single step a government can take. I don't want to downplay the importance of the economic policy environment set by governments, nor the negative impact of government deficits. But we must also realize that on the economic battleground, as Pogo said, "we have met the enemy, and he is us."

There is another way in which we Canadians must "get our heads straight." As well as looking outward, beyond Canada, and along with more economic realism, we need to cultivate confidence in ourselves, our country and its prospects.

Our inability to see the tremendous potential of this nation is perhaps our greatest weakness. In our preoccupation with the internal "dispute of the month," we forfeit the opportunity to build on our strengths for the future.

The importance of these attitudes —internationalism, economic realism, and confidence—is such that I urgently call upon all opinion leaders to rise above partisanship and speak out, for the good of Canada. And I go further: a change of attitudes is not enough— there must be a change in the actions which result from attitudes.

Let me elaborate. If we continue to be so isolationist as to believe we can build a healthy economy without attracting and welcoming foreign capital and investment, we will see more projects delayed, down the drain or—more accurately—down south. We'll see more jobs lost, the Canadian dollar fall still further, the price we pay for imports increase. The notion that foreign ownership is bad ownership, and that we can penalize it retroactively, as contained in the federal government's National Energy Program, is living dangerously. It is damaging Canada's reputation abroad, and is fomenting wasteful bickering at home, just when we should be pulling together. It must be changed.

I'll give another example. Surely, we must realize that the number one task for Canadians today is economic. Yet, in this difficult period, we are treated to the spectacle of the federal government and the ten provincial governments furiously at work on the issue of patriating the constitution! As one Canadian columnist has put it: "While the economy cried out for serious thought and careful management, our most important politicians...were engaged in a process that was at best pointless and at worst grievously harmful." Let's put the constitution on the back burner, as an important issue for another day, and get down to things that are urgent today! If we resolve our economic problems, I suggest that the constitutional issues will quickly fall into place.

As a third example, let's realize that the bitter fights between levels of government and regions in this country —which are largely about dividing the wealth—stem from a lack of confidence that Canada is capable of generating prosperity for all Canadians no matter where they live. Let's have enough faith in our country to rise above these greedy disputes! Let's stop fighting over cutting up the pie, and get to work on making the pie bigger!

Whose responsibility is it to take the lead in these changes? Everyone has a role, but it's especially up to business and government.

Business

Let's start with business.

First, knowing that change will accelerate through the 1980s, we can't afford to sit back and wait to see what the future will be like. Canadian business must anticipate. But how?

To start with, by investing. It's not overstating the case to say we have to retool our economy for the tough world that's coming. The Japanese and the Germans did it after World War II and we have seen the results. It will take some very smart business analysis and planning. And it calls for the nerve and confidence to take risks. But isn't that what business people are supposed to be all about?

Next, we urgently need more research and development. The world of the 80's and 90's will clearly be one in which economic and industrial gains—from which stem social gains—result from productivity gains. And among the most likely sources of these is technology. We Canadians have become very comfortable accepting the hand-me-down technologies of others. Our research and development expenditures, once 1.4% of GNP, have now declined to a pitiful 0.9%, when the internationally competitive level is at least 2%. If we wish to become technologically independent and competitive in the scientific seed-bed of economic progress, we'll have to do better. The alternative is that we pay the full price of being shut out of the growth industries of the future. And, I must add, investing more in R & D is not so much up to government as it is up to us in business; government can encourage it—business has to do it.

Another requirement of Canadian business is that it takes an internationalist approach to opportunities for growth. I have already commented on this, so need only add that given our balance of payments situation and the limited domestic opportunities for economies of scale, our whole approach to doing business must be built on a global perspective. The future belongs to those who sell to the world.

Finally, Canadian business has to learn to work more effectively with governments at every level. Instead of dividing our time between beefing about governments and running to them for special help, we Canadian business people must learn to work in fruitful co-operation with them. To me, that's just common sense.

The Role of Government

What is the role of government?

The first and most basic need is for government attention to be focussed on economic policy, rather than on disputes over power and jurisdiction. We need a far-sighted and responsible framework of economic policy, including appropriate fiscal and monetary approaches. These could be the subject of another complete speech, so I will say only that the three most important objectives must be the defeat of inflation; the stimulation of investment; and the development of petroleum self-sufficiency as the springboard for future growth.

Next, just as I believe business has to learn how to work with governments, governments need to improve their approach to the private sector. And this emphatically does not mean I endorse or accept an interventionist approach. Indeed, if business is going to do its job for Canada, it needs respect, recognition of its role—and room to breathe!

We need a lot more serious and constructive consultation with the private sector, and between levels of government. The National Energy Program is a case in point. It seems abundantly clear by now that it is so seriously flawed as to be a non-starter which should be withdrawn and reconsidered. And in that reconsideration, let all the key players have reasonable input! We need consensus in energy policy, not tablets from the Mount!

What we need most is resolution of the federal/provincial energy dispute—an end to the "High Noon" confrontation—so we can get back to the job of developing our energy resources. Surely it is not too much for us to ask the two sides to stop their war by newspaper headline, and to sit down behind closed doors and stay there until they come out with an agreement. If they need the services of an internationally-respected figure to mediate, then let's not rule that out either! In any event, we desperately need an end to the unnerving uncertainty the present situation is producing.

Finally, in a more general context we need considerable improvement in the efficiency and speed of government decision-making.

It took six years of study and debate to pass the Bank Act, which really had very little controversial in it, and it is very tempting to view this as another example of our Canadian capacity to make mountains out of molehills, and as further evidence that our system of government is simply not working as it should. We'll have to do better.

The Need for One Canada

There is one more requirement for prosperity in Canada during the 1980s: Unity. We are one country. I believe we always will be. I believe most Canadians would literally fight for that principle. Besides, it makes good economic sense. Do not be fooled by those who suggest otherwise.

It has been said that the provinces have more power to erect trade and other barriers against each other than have other nations, under GATT, to erect barriers against Canada. We must have a unified national economy, not one fragmented by overly restrictive provincial preferences in purchasing, employment, and the investment of capital, if we're fully to realize our economic strength.

Those arguing for provincial protectionism, and proposing "I'm all right, Jack" policies for their own part of this country should be told the sober economic truth—in the long run such policies would hurt all of us in Canada.

A European visitor recently remarked to me that Canadians are so fortunate they can afford to invent imaginary problems. He may be right. When you compare the reality of Canada's resources with those of other countries, you wonder what the shouting is all about.

In another sense, though, he is wrong. We can no longer afford to waste our energies squabbling over the problems he called imaginary. Indeed, there is nothing imaginary about the divisive forces, the resentments now at work in our country. There is nothing imaginary about the issues which divide East from West, Ottawa from the provinces, have-not regions from the haves. They constitute a problem which is all too real.

The time has come when we must regain our perspective, when we must rededicate ourselves to our country as we traditionally have in times of crisis. There is really only one threat to Canada today—the threat of narrow-minded parochialism; the threat of remaining bogged down in greedy disputes and insularity; the threat, in short, of not believing in Canada.

We must turn back that threat, and get on with the job of realizing our country's magnificent potential for greatness.

Minutes of the 112th Annual Meeting of The Shareholders

Montreal, January 8, 1981

The 112th Annual Meeeting of the Shareholders of The Royal Bank of Canada was held at the Head Office of the Bank in Montreal on Thursday, January 8, 1981 at 11:00 a.m. As designated by the Directors the Chairman of the Board, Mr. Rowland C. Frazee, acted as Chairman of the meeting and the Secretary of the Bank, Mr. R.J. Moores, acted as Secretary of the meeting. The Chairman declared that as notice of the meeting had been duly given and a quorum was present, the meeting was properly convened. The Chairman appointed Messrs. Antoine Y. Lamarre and James W. Knox to act as Scrutineers.

It was moved by Mr. D.R. Getty and seconded by Mr. J.D. Maclennan that the Minutes of the last Annual Meeting of the Shareholders of the Bank held on January 10, 1980, a copy of which was sent to each Shareholder as required by the Bank Act, be taken as read and be approved.

The Chairman then stated that the motion was open for discussion. There being no discussion, the Chairman put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried.

The Chairman referred to the Annual Statement, copies of which had been distributed to the Shareholders, and to the Directors' Report, and called upon the Secretary to read the Directors' and Auditors' Reports.

Directors' Report

The Directors of The Royal Bank of Canada have pleasure in submitting to the Shareholders the one hundred and eleventh annual Directors' Report as well as the Annual Statement for the financial year ended October 31, 1980, which includes the Statement of Assets and Liabilities of the Bank, the Statements of Revenue, Expenses and Undivided Profits, and of Accumulated Appropriations for Losses of the Bank, the Statements of Assets and Liabilities of Controlled Corporations and the Auditors' Reports with respect to those statements.

In accordance with the usual practice, the assets of the Bank have been carefully valued and provision made for all bad or doubtful debts.

During the year, twenty-four branches were opened and thirty-eight were closed in Canada; and four were opened and two closed outside Canada. The total number of branches in operation on October 31, 1980 was 1,592 of which 1,508 were in Canada and 84 were in other countries; in addition the bank has a financial interest in 101 subsidiaries and affiliates throughout the world.

The Directors once again wish to place on record an expression of sincere appreciation to all members of the staff, both in Canada and abroad, for their contribution to the success of the Bank during the past year.

Respectfully submitted
Rowland C. Frazee
Chairman and Chief
Executive Officer

Montreal
January 8, 1981

The Auditors' Reports were then read by the Secretary (these reports appear on pages 46 and 54 in the Annual Report).

Before calling for the adoption of these reports Mr. Frazee said:

"I would like to place on record the appointment of four directors since the last meeting of Shareholders:

Mr. Don R. Getty of Edmonton, on February 27th; Mr. John R. McCaig of Calgary, on May 29th; Mr. Robert A. Utting of Montreal, also on May 29th; and Mr. W.P. Wilder of Toronto, on September 9th. We welcome them cordially to the Board of the Bank.

At the same time, I must also advise you that three directors will not be standing for re-election today.

The Right Honourable Lord Adeane, who first joined the board at the end of November 1972, is ineligible for re-election by reason of age.

Sir Charles Hardie, C.B.E., appointed in May 1970, stands down for the same reason.

As well, Mr. David S. Holbrook, first elected to the Board in January 1962, has decided not to present himself for re-election, as he is retiring from active business life.

For their devotion to the interests of the Bank during the years in which they served as directors—19 years in the case of Mr. Holbrook—I would like to express our sincere thanks. We shall miss them.

The year was also marked by the retirement as Chairman of W. Earle McLaughlin. As all of you—and most Canadians—know, he led this bank for eighteen years—a period of truly remarkable change and growth. One measure is that from the time he became president to his retirement as Chairman, the Bank's assets grew from $4 billion to about $60 billion. I will say no more today about his retirement, except that we are happy, indeed, to benefit from his continued contribution as an active member of the Board.

As many are aware, we undertook a major re-structuring of our management team during 1980 and an integral part of the program was the appointment of Jock K. Finlayson as President of the Bank. As you know, Mr. Finlayson's career has been a brilliant one, and his contribution—as the number two executive of the Royal Bank, with special responsibilities for the international and corporate banking aspects of our business—continues to be invaluable. I am very appreciative of his close support.

Mr. Robert Utting, in addition to being appointed a Director, was made a Vice Chairman in Montreal and assumed the major responsibility for the Bank's financial management and strategy on a global basis.

These appointments, plus that of Mr. Wyatt as Vice Chairman, Western Canada, in 1979, and the identification of five major banking divisions under our Executive Vice Presidents, provide the bank with the organization and the people to approach the eighties with confidence.

I would now like to say a few words about the current and future Canadian situation."

(The text of Mr. Frazee's address will be found on page 1 of the Proceedings).

Mr. Frazee then called upon Mr. Robert A. Utting, Vice Chairman to address the meeting. (A fuller Report on the Year's Operations by Mr. Utting is presented on pages 11 to 41 of the Annual Report.)

The Vice-Chairman's Address

If the past year established a "tone" for the eighties, the banking industry in Canada will face challenges testing flexibility and intelligence not only on managerial skill but in sheer ingenuity and inventiveness. As a free enterpriser, I welcome these challenges not simply because I believe the Royal has a good grasp of their implications for banking and for our managerial structure—but also because I believe they add zest and substance to our work as bankers—and I believe we can succeed on your behalf.

The financial results of the Royal Bank might lead you to think economic conditions weren't all that bad last year. Let me assure you, especially in regard to Canada, that while we had our successes, it remains very competitive out there in the financial jungle. We are striving to keep our "edge" and we're very appreciative of the fine support of our shareholders.

During 1980 we saw interest rate movements of as much as five per cent in a very few weeks—an almost unprecedented phenomenon which hit severely in the 2nd and 3rd quarters with particular emphasis on the retail bank—we have had it again in recent days.

You may recall last year I suggested 1979 was "the year of the consumer." I described it thus because banks were absorbing portions of interest rate increases relative to mortgages, and consumer loans. Competition was tight and borrowers benefited from lower pricing. When interest rates soared so dramatically, the industry could no longer stand this cost. I doubt very much if we will see such a benefit re-emerge, notwithstanding competition.

Since interest rate changes are of great concern, I should like to elaborate.

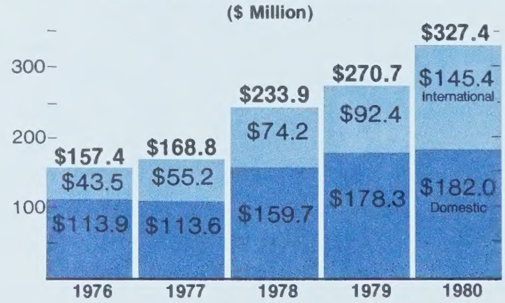
First, let me make it clear it has not been the chartered banks that designed or caused the interest rate rise. Much of the cause is to be found in government policies designed to protect the Canadian dollar from undue bruising from conditions prevailing in the United States. We have been dragged along by skyrocketing interest rates there, because our government chose to use interest rates almost exclusively in an effort to protect our currency. Canadian banks had little choice but to follow the upward spiral of interest rates as a consequence of government policy and Central Bank signals.

The pressure on domestic interest rates has of course not been helped by federal fiscal policy which dictated increased borrowing. An already heavy deficit was expanded very substantially through mushrooming energy subsidies paid not by the consumer but from borrowed funds.

To meet their swollen borrowing requirements, Government had little option but to bid mainly in the medium-term market (3-5 years), the same source financial institutions use for funding homeowner mortgages. This added "competition" unquestionably pushed up the price of money and it's small wonder mortgages cost more, with little relief in sight.

Conversely, the interest rate experience has had some therapeutic value as it highlighted how low spreads can go, and within our industry certain soft spots, some publicized, have dictated that management practices required even further tightening and improvement—it has not been an easy year for the industry.

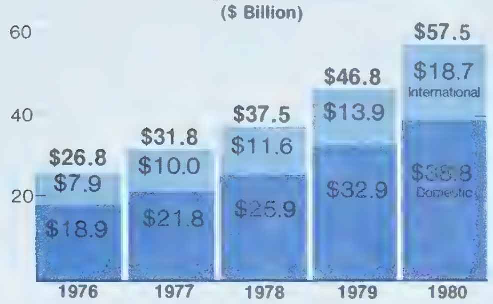
Balance of Revenue After Taxes
($ Million)



In these circumstances, the Royal's results have been good and we can claim a modest degree of success. Our balance of revenue after taxes, or after-tax earnings, amounted to $327.4 million in 1980, an increase of $56.7 million, or 21 per cent over the $271 million of last year. On a per share basis, this represented earnings of $8.92, compared to $7.40 in 1979, also an increase of 21 per cent.

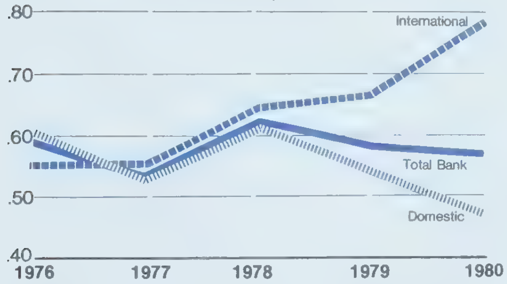
But the most graphic factor in this chart is that while our Domestic Operations earned $182 million during 1980—only a marginal increase — it was from our International Operations that we gained the most significant improvement: 57 per cent during 1980, with earnings of $145.4 million... nearly triple the level of three years ago. International Operations this year generated close to 45 per cent of total Bank earnings.

Average Total Assets
($ Billion)



Average total assets rose by 23 per cent over 1979 from $46.8 billion to $57.5 billion. Continuing as one of the largest banks in the world, assets reached $62.8 billion, at year end. Initial consolidation of several international subsidiaries accounted for approximately $1.0 billion of the growth. The Bank's average total assets included domestic assets of $38.8 billion, up 18 per cent, and international assets of $18.7 billion, up 34 per cent.

Return on Assets
(In %)



I indicated at last year's meeting the emerging pattern whereby International Operations showed higher returns than Domestic. This continued in 1980 when Domestic return on assets fell seven basis points to .47 per cent while International returns rose 12 basis points to .78 per cent. The Royal Bank's overall return on average total assets declined marginally from 0.58 per cent in 1979 to 0.57 per cent this year.

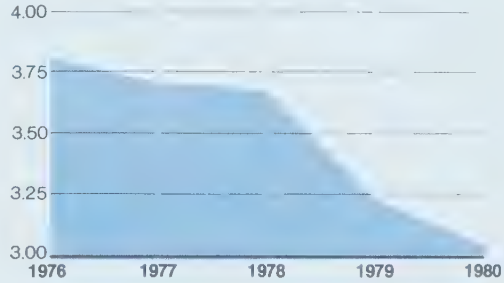
Domestic Highlights
Per $100 of Average Assets

	1979	1980
Taxable equivalent spread	$3.24	$3.04
Other operating revenue	.67	.66
Net revenue	$3.91	$3.70
Non-interest expenses	2.63	2.51
Loan loss provision	.22	.23
Taxes (taxable equivalent basis)	.52	.49
Return on assets	**$ .54**	**$ .47**

This slide outlines the Domestic Highlights per $100 of average assets. Retail spread was the major factor in the decline in the profitability of Domestic Operations. I'll be saying more on this subject in a moment.

There is one particular accomplishment which must be highlighted in our Domestic Operations. We succeeded in significantly restraining the growth in Non-Interest Expenses in 1980, resulting in a decrease in this ratio from $2.63 to $2.51. Our staff across Canada are to be commended for this achievement.

Domestic Percent Spread



The problem in Canada is "spread" but there is a straightforward explanation—the average **cost** of deposits, particularly term deposits, increased more rapidly than yield on loans. As this slide shows, domestic per cent spread has fallen very sharply since 1978, part of a five-year downward trend. This erosion must be reversed before it takes a more serious toll within our industry, and I am hopeful this process is now under way, at least in our retail area.

Interest rate fluctuations in 1980 achieved extremely high visibility if for no other reason than linking the Bank Rate to the weekly auction of Treasury Bills. While this revised procedure provided government with a politically viable method for appearing to adjust to open market rates—normally to be commended—it remains nevertheless something of a convenient fiction so long as the Central Bank influences the interest rate structure through its own predetermined activity, as it said it would.

International Operations

International Operations in 1980 were oustanding when we address the bottom line.

In the highly competitive international marketplace, the Royal continued to excel and expand its already extensive network of more than 200 operating units in 45 countries.

Our success is related directly to the "edges" we have—to paraphrase our current international advertising campaign. Our network of branches, representative offices, agencies, money market centres and subsidiaries is among the most comprehensive of all banks. Our money market and foreign exchange operations process more than one and a half billion dollars every day.

International Highlights
Per $100 of Average Assets

	1979	1980
Taxable equivalent spread	$1.65	$1.88
Other operating revenue	.64	.62
Net revenue	2.29	2.50
Non-interest expenses	.93	1.09
Loan loss provision	.21	.16
Taxes (taxable equivalent basis)	.49	.47
Return on assets	**$ .66**	**$ .78**

The components per $100 of average international assets show clearly how our dramatic improvement was achieved. Primarily, the change resulted from a marked increase in international spread, much of it coming from our international money market operations and new consolidation of subsidiaries.

If taken alone, our international average assets of $18.7 billion alone place the Royal Bank among the 80 largest banks in the world.

However, this continued growth has not been without cost, as reflected in the rise of our non-interest expense ratio reflecting not only increased activity but investment for the future—nor was the international environment totally devoid of trouble spots requiring close attention of management.

It is only fair to predict this high level of return on assets will likely prove difficult to maintain due to competitive pressures, and with the odd storm cloud on the horizon the favourable market conditions experienced in 1980 cannot be counted on to be repeated.

In 1980 the Bank initiated a series of moves to expand our role in world markets:

- Transferred the Royal's headquarters for Latin America and Caribbean operations to Coral Gables, Florida.
- Created a centralized Correspondent Banking Group to co-ordinate our 3,200 world-wide relationships.
- Opened a new agency in Miami to serve the Southeastern U.S. market and take off-shore deposits.
- Opened a new representative office in Cairo, Egypt.
- Continued consolidation of wholly-owned subsidiaries:
  - Royal Bank and Trust in New York, adding approximately $250 million of assets.
  - Banco de San Juan in Puerto Rico, adding $350 million of assets to the Bank's total.

In London our new merchant bank, Royal Bank of Canada (London) Limited, made significant inroads in the Eurocurrency markets, meeting the financial needs of a growing number of corporations, governments and government agencies around the world.

Two new groups of specialists were created by the Royal last year to support both our domestic and international operations.

First, we established the Global Energy and Minerals Group based in Calgary to provide technical and evaluation services and market and credit facilities for the growing energy and minerals activity around the world.

Then later in the year, we created the World Trade and Merchant Banking Division in Toronto as a visible indicator of our strategy to progressively position ourselves in key markets on a world-wide basis. The new division will substantially expand our marketing services to exporters and importers in Canada and other countries, as well as expanding our international merchant banking capabilities.

I should now like to touch on capital adequacy and our equity base. As of October 31, 1980, our capital funds were nearly $2.7 billion, or over $2.9 billion if we include preferred shares and debentures of Globe Realty Limited which are exchangeable into similar instruments of the Bank as now permitted under the new Bank Act.

Included are $161 million of the $210 million to come from the rights offering which the Royal undertook recently—the largest in Canadian banking history.

As soon as is practicable, the Bank intends to introduce two plans under which shareholders will have the opportunity to re-invest dividends and make certain optional payments for the purchase of new Common Shares of the Bank.

Highlights of 1980 Consolidated Results

	New Bank Act	Statutory	Difference $	%
Year-end assets ($ Millions)	$61,477	$62,834	($1,357)	(2.2%)
Balance of revenue after taxes ($ Millions)	$350.6	$327.4	$23.2	7.1%
Earnings per share	$9.55	$8.92	$0.63	7.1%

This slide highlights how our 1980 operating results would appear restated as required under the new Bank Act. The major changes include a full consolidation of controlled corporations and equity accounting for those 20-50%-owned.

Certain letters of credit and guarantees are to be eliminated and, accordingly, our assets at year end would be nearly $1.4 billion lower than on the statutory reporting basis. Earnings, however, would be $23.2 million, or 63¢ per share higher under the reporting basis of the new Bank Act.

Domestic Operations

Our Retail operations are the largest part of the domestic bank and are among the largest in North America and, in fact, rank among the most substantial in the world.

During 1980 we introduced "Branch-to-Branch" banking, enabling customers to have access to their personal accounts through any branch in Canada. We also successfully launched "Personal Touch Banking" in Western Canada, an exciting new generation of automated banking machines. We will continue to install these across Canada, giving customers the convenience of banking at any hour of the day or night.

The Royal's strength in Commercial Banking is based on our abilities to identify and service small and large businesses.

During 1980 we established commercial branches throughout Canada to give in-depth assistance to commercial and industrial customers, and introduced one of the industry's most comprehensive cash management services. Known as Cash Command Series II, it gives clients access to their accounts and information on financial matters by way of portable computer terminals in their offices, and in this field we now enjoy a clear lead over the competition.

We continue to provide specialized financial services in a wide variety of ways ranging from the RoyFarm Mortgage Program to our Franchise Plan for franchisers. Our strong commitment to the independent business sector was reaffirmed as we became the leading chartered bank supporter of the federal government's Small Business Development Bond Program.

Personnel

Banking remains a people-oriented business and our staff remains our greatest asset.

The continual implementation of new techniques and services by which this Bank has maintained its position as a leader in the industry has meant greater pressures and challenges for our staff. Our success in 1980, in an environment not conducive to "easy trading," stands as a testament to the loyalty, dedication and commitment of our over 36,000 men and women working in all parts of the world.

We are a concerned employer with great interest in our staff and we continue policies of promotion from within and on-the-job training together with an enlightened approach to career opportunities.

Conclusion

Returning to matters financial, and reporting to you as shareholders, we are ever reminded that in the final analysis, bottom line measurement of our success is profit. Our principal business remains the buying and selling of money, Our profit, and our success, depends on the margin separating what we pay for money and what our services cost to deliver and what we receive in return but I assure you we can do quite nicely with lower interest rates.

The final passage of the Bank Act subsequent to our year end was of course a great event. The last-minute revisions which the present government appended were not particularly favourable to banks: restrictions on leasing of all vehicles below a certain weight forced the Royal out of auto leasing. Additionally the discrimination against banks as compared to near-banks with regard to reserve requirements on term deposits beyond one year, which are required to finance mortgage lending, was maintained.

While legislators preached "competition" they totally contradicted themselves on these two items and I can only assume they believe the unsuspecting consumers will never recognize the added costs they bear. Perhaps consumers are expected to take comfort from the fact the banks, for no good reason, have been penalized.

Banking in the eighties will require a flexibility in portfolio management that was not thought necessary only 10 years ago. Many people expect the new Bank Act, which opens the door to foreign competition, will create an even more competitive domestic environment, producing real client benefits, and so it will. This is not new, however, so it may not surprise some if I designate 1980 as the "Year of the Corporation," emphasizing for the non-believer that an extremely competitive Canadian banking structure already exists, augmented by the present and future activities of foreign banks in the wholesale money market.

However, **as an industry** we must be careful that we do not let our zeal for meeting competitive challenge undermine the fundamental need for sound balance sheet administration when dealing with our own needs and those of our clients. Today more than one major multinational corporation in retrospect may well regret pursuing "easy" or convenient sources of debt rather than facing the realities of an adequate equity base. The cost in cash and confidence can be staggering. Even governments are not exempt, for unpopular as it may appear, occasionally they too should turn to their "shareholders" rather than constantly to their creditors.

Internationally, we have established ourselves as a strong and aggressive banking force and this provides an assurance of our competence in dealing with strong competition.

As shareholders you should take confidence from the feature that your Bank is well prepared and well equipped in terms of both organizational structure and a solid capital base to face the opportunities and challenges of the eighties. This is essential if we are to maintain our "edge" in the "competitive" jungle.

As shareholders I trust you may sense some feeling of success from what we have told you today for, after all, "when you succeed—we succeed."

It was moved by Mr. W.O. Twaits, C.C. and seconded by Mr. Ian D. Sinclair.

"THAT the Directors' Report and the Annual Statement for the financial year ended October 31, 1980, as well as the Auditors' Reports with respect to the Statements included in the Annual Statement be adopted."

The Chairman then stated that the motion was open for discussion. There being no discussion, the Chairman put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried.

The Chairman then stated that the next item of business was confirmation of new by-laws for the Bank and commented as follows:

"A new Bank Act officially became law on December 1st 1980. In a letter to shareholders, accompanying the notice of meeting and information circular, I indicated the implications of these new by-laws. Let me review them very briefly.

First, I remind shareholders that under the previous act we had both shareholders' and directors' by-laws but under the new act, there will be only one set of by-laws—the shareholders'. These were enacted by the directors on December 2, 1980, and you are being asked to confirm them today.

The by-laws are three in number. By-law 1 relates to the Administrative structure of the bank, which structure is not significantly different from that under the previous Bank Act. This by-law requires shareholder confirmation by a majority of the votes cast.

By-law 2 concerns the remuneration of directors and the removal of the pre-emptive right of shareholders, and requires shareholders' confirmation by a majority of not less than two-thirds of the votes cast.

Under this by-law it is recommended that the maximum aggregate amount, which may be paid to the board of directors, be increased from $500,000 to $950,000.

The previous limit has been unchanged for seven years. Furthermore, the number of meetings of the full board is being increased from five to twelve annually, involving substantially more travel time. And, finally, we have increased the number of committees as well as the number of meetings of these committees.

Regarding the removal of the pre-emptive right, I remind you that under the previous bank act, the bank could not issue shares without first offering them to all existing shreholders, but the new bank act allows shareholders to waive this right.

The effect of this is to permit the bank greater flexibility in its capital funding, as shares having features attractive to certain segments of the investing public could be issued without first having to offer them to shareholders of the same class. An example would be preferred shares. Shareholders of the bank will always, of course, have the opportunity of investing in such shares on the open market and, furthermore, this does not mean the bank is precluded from making further rights issues, one of which has recently been successfully completed. In the new year, subject to clearance with regulatory bodies, the bank intends to introduce a plan under which shareholders would have the right to reinvest dividends and make certain optional payments for the purchases of new common shares of the bank.

By-law 3, and the third resolution in the notice of meeting, set out the proposed authorized capital of the bank, and both require shareholder confirmation by a majority of two-thirds of the votes cast. Under this by-law, the bank would be enabled to issue first preferred and second preferred shares in addition to common. It is the intention to create the first preferred shares, and to exchange them for the outstanding $1.88 cumulative redeemable preferred shares, Series A, of Globe Realty Limited. In addition, it is proposed to split outstanding common shares on a two-for-one basis. This split will not change the rights of holders of common shares and each share outstanding after the split will have one vote. These changes to authorized capital require governmental approval before implementation.

As I mentioned earlier, these new by-laws are in compliance with the new bank act, have the approval of the directors of the bank, and, in our view, represent opportunities under some of the more progressive elements in the new act.

To give effect to these various changes, the passing of four resolutions is required, as detailed in the notice of meeting. The last three of these are special resolutions which means that a two-thirds vote is necessary for them to pass."

It was moved by Mr. G.H. Blumenauer and seconded by Mrs. D. McKeag:

"THAT the shareholders of the Bank hereby confirm by-law one previously made by the directors of the bank relating to certain administrative matters."

The Chairman then stated that the motion was open for discussion. There being no discussion the Chairman put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried.

It was moved by Mr. Ian Mair and seconded by Mr. Ron Riley:

"THAT the shareholders of the bank hereby confirm by-law two previously made by the directors of the bank relating to the remuneration of directors and removing the pre-emptive right of the shareholders."

The Chairman then stated that the motion was open for discussion. There being no discussion the Chairman put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried by a majority of two-thirds of the votes cast.

It was moved by Mr. J.A. Tory, and seconded by Mr. Neil F. Phillips, Q.C.:

"THAT the shareholders of the bank

(a) hereby propose that the authorized capital of the Bank be changed and increased as set out in paragraph 1.1 of section 1 of by-law three of the Bank which reads as follows:

1.1—Authorized Capital

The authorized capital of the Bank consisting of 50,000,000 shares of the par value of $2.00 each, of which 41,164,200 shares are issued and outstanding,

(i) is subdivided on the basis of each such share being subdivided into two shares so that such shares are thereby changed into 100,000,000 shares of the par value of $1.00 each of which 82,328,400 shares are outstanding,

(ii) is changed as to designation from "shares" to "Common Shares", and

(iii) is increased by the creation of 50,000,000 First Preferred Shares without nominal or par value, 50,000,000 Second Preferred Shares without nominal or par value and an additional 150,000,000 Common Shares of the par value of $1.00 each.

so that the authorized capital of the Bank shall consist of 50,000,000 First Preferred Shares without nominal or par value, 50,000,000 Second Preferred Shares without nominal or par value and 250,000,000 Common Shares of the par value of $1.00 each, of which 82,328,400 Common Shares are outstanding; and the aggregate consideration for which all such First Preferred Shares may be issued shall not exceed $1,250,000,000 and the aggregate consideration for which all such Second Preferred Shares may be issued shall not exceed $1,250,000,000 and

(b) hereby authorize any two directors of the Bank to make application for and on behalf and in the name of the Bank for approval of such proposal by the Minister of Finance."

The Chairman then stated that the motion was open for discussion. There being no discussion the Chairman put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried by a majority of two-thirds of the votes cast.

It was moved by Mr. Paul Paré and seconded by Mr. W.F. Light:

"THAT effective upon such date as the proposal to change and increase the authorized capital of the Bank as set out in section 1 of By-Law Three of the Bank has received the necessary approval of the Minister of Finance, the shareholders of the Bank hereby confirm the totality of By-Law Three of the Bank consisting of section 1 as aforesaid and of section 2 setting out the rights, privileges, restrictions and conditions of the First Preferred Shares, the Second Preferred Shares and the Common Shares of the Bank."

The Chairman then stated that the motion was open for discussion. There being no discussion the Chairman put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried by a majority of two-thirds of the votes cast.

The Chairman then declared the meeting open for the nomination of directors.

Mr. J.D. Redfern nominated the following persons to be Directors of the Bank:

D.S. Anderson, John A. Armstrong, Ian A. Barclay, T.J. Bell, M.C., C.D., LL.D., G.H. Blumenauer, G. Allan Burton, D.S.O., E.D., LL.D., R.B. Cameron, O.C., D.S.O., John H. Coleman, Frank B. Common, Jr., Q.C., F.M. Covert, O.B.E., D.F.C., Q.C., Camille A. Dagenais, Mrs. Mitzi S. Dobrin, G. Campbell Eaton, O.C., M.C., LL.D., C.D., Jock K. Finlayson, Rowland C. Frazee, W.D.H. Gardiner, D.R. Getty, Floyd D. Hall, Walter F. Light, Tong Louie, P.L.P. Macdonnell, O.C., Q.C., J.D. Maclennan, Clifford S. Malone, F.C. Mannix, J. Pierre Maurer, John R. McCaig, Mrs. Dawn R. McKeag, W. Earle McLaughlin, J.P. Monge, Pierre A. Nadeau, Paul Paré, Neil F. Phillips, Q.C., Herbert C. Pinder, Claude Pratte, Q.C., L. Merrill Rasmussen, Charles I. Rathgeb, A.M. Runciman, P.R. Sandwell, Ian D. Sinclair, P.N. Thomson, John A. Tory, Q.C., W.O. Twaits, C.C., R.A. Utting, W.P. Wilder, C.N. Woodward, and H.E. Wyatt.

Mr. MacKenzie McMurray seconded the nominations.

The Chairman then said: "Each of the persons nominated is prepared to serve as a director and qualifies as a director under the provisions of the bank act. As a group, these nominees meet the requirements for the composition of a board of directors of a bank under the bank act."

The Chairman then asked if there were any further nominations.

It was moved by Mr. D.W. Salsman and seconded by L. Rice:

"THAT the nominations be closed and that each of the persons nominated be elected a Director of the Bank."

The Chairman then stated that the motion was open for discussion. There being no discussion, the Chairman put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried and the slate of names, as proposed, duly elected directors of the Bank.

It was moved by Mr. Colin W. Webster and seconded by Mr. Bernard Lamarre:

"THAT Touche Ross & Co., and Price Waterhouse & Co., be and they are hereby appointed auditors of the bank until the next ensuing Annual Meeting of the Shareholders, and that their remuneration be fixed at a sum not to exceed $360,000 to be divided between them."

The Chairman then stated that the motion was open for discussion. There being no discussion, the Chairman put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried.

Mrs. Mitzi S. Dobrin, expressed the thanks of the Shareholders to the Executive Officers and staff of the Bank for the efficient manner in which they have performed their respective duties.

Mr. F.P. Paradis replied on behalf of the officers and Mr. J.S. Michaluk replied on behalf of the staff.

The Chairman then said: ''Before we move to the 'Further Business' item on the agenda, I would like to report briefly on two matters I believe will be of interest to the shareholders.

The first is that after considerable research and discussion, both by management and by the public policy committee of the board, the board of directors has enacted a formal code of conduct for the bank and its employees. The Royal Bank has always prided itself on adhering to the highest standards of ethical conduct.

Nevertheless, in an increasingly complex world, there are distinct advantages to having a formal code.

Ours is in two parts:

One dealing with the conduct of the corporation itself, as expressed through the actions of officers and staff acting on behalf of the bank; and the second covering standards of behaviour we require of all employees. The code has been distributed and discussed with all staff, and if any shareholder wishes a copy, we would be happy to provide it.

I believe it is also relevant here to mention that, as a multinational corporation, we have also signified our acceptance of the guidelines for multinational enterprises developed by the OECD., The Organization for Economic Cooperation and Development.

The second matter upon which I wish to comment is that 1981 has been designated by the United Nations as International Year of Disabled Persons.

To mark the occasion, we at the Royal Bank have undertaken a three-part program. First, as part of our ongoing donations and grants program, we have undertaken sponsorship of a documentary film, to be titled 'Against All Odds', which is designed to assist organizations working with the handicapped to raise public consciousness about the actual and potential achievements of disabled persons.

Second, we have made a careful review of the accessibility of our offices and branches to the physically handicapped, and while we have reason to be proud of many of our premises, we are launching a program to improve this situation still further.

Third, and finally, we have reviewed our hiring practices with regard to handicapped persons, and are taking steps to create improvements in this area, too. I think we can all agree that when disabled persons are prevented from making their full contribution to society by unnecessary physical or mental barriers, this constitutes a tragic waste of human potential and productivity. I think it appropriate that The Royal Bank of Canada do its part to help eliminate such barriers.''

The Chairman then asked if there were any further business to come before the meeting. Two shareholders made some general comments following which the Chairman declared the meeting terminated.

(signed) R.J. Moores
Secretary

(signed) Rowland C. Frazee
Chairman and Chief
Executive Officer